

MARTIN COUNTY WATER DISTRICT
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

Prepared by:

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CERTIFIED PUBLIC ACCOUNTANTS
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White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road
Richmond, Kentucky 40475

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the Martin County Water District
Inez, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise fund of the Martin County Water District (District), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund of the District, as of December 31, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
September 30, 2016

Martin County Water District
STATEMENT OF NET POSITION
December 31, 2014

	<u>2014</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 82,395
Accounts receivable	
Customer, net	251,056
Other, net	3,227
Inventory	26,272
Prepaid expenses	18,990
Accrued utility revenues	243,652
Total current assets	<u>625,593</u>
Noncurrent assets:	
Restricted cash and cash equivalents	193,932
Capital assets not being depreciated	214,714
Capital assets, net of accumulated depreciation	21,445,957
Total noncurrent assets	<u>21,854,603</u>
	<u>\$ 22,480,196</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 347,722
Accrued liabilities:	
Payroll taxes	3,910
Other	59,545
Interest	4,977
Customer deposits	133,349
Current portion of long-term debt:	
Bonds	-
Note	47,020
Capital lease	10,000
Total current liabilities	<u>606,523</u>
Noncurrent liabilities:	
Noncurrent portion of long-term debt:	
Bonds	1,971,000
Note	655,302
Capital lease	126,222
Total noncurrent liabilities	<u>2,752,524</u>
Total liabilities	<u>3,359,047</u>
NET POSITION	
Net investment in capital assets	18,851,127
Restricted for:	
Reserves	193,932
Unrestricted	76,091
Total net position	<u>19,121,149</u>
Total liabilities and net position	<u>\$ 22,480,196</u>

See the accompanying notes to the financial statements.

Martin County Water District
STATEMENT OF REVENUES, EXPENSES and CHANGES in NET POSITION
For the Year Ended December 31, 2014

	<u>2014</u>
OPERATING REVENUES:	
Water sales:	
Residential	\$ 1,581,512
Commercial	400,136
Unmetered	452
Other sales:	
Public authorities	51,121
Penalties	75,242
Other	141,095
Vendors	347
Miscellaneous	15,006
Total operating revenues	<u>2,264,912</u>
OPERATING EXPENSES:	
Salaries and wages	533,566
Employee benefits	279,131
Purchased water	334,837
Chemicals	146,849
Materials & supplies	210,528
Contractual services	137,059
Rental	11,864
Transportation	68,800
Insurance	59,449
Bad debt	52,402
Regulatory assess fees	4,214
Depreciation	771,868
Miscellaneous	53,427
Total operating expenses	<u>2,663,994</u>
OPERATIONS INCOME (LOSS)	<u>(399,082)</u>
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	257
Interest expense	(114,714)
Total nonoperating revenues (expenses)	<u>(114,456)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(513,538)
Tap fees	15,914
Contributions	1,164,850
Total contributions	<u>1,180,764</u>
CHANGE IN NET POSITION	667,226
NET POSITION, BEGINNING	<u>18,453,923</u>
NET POSITION, ENDING	<u><u>\$ 19,121,149</u></u>

See the accompanying notes to the financial statements.

Martin County Water District
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

	<u>2014</u>
Cash flows from operating activities:	
Cash received from customers and other sources	\$ 2,264,912
Cash payments to suppliers for goods and services	(1,258,817)
Cash payments for employees and benefits	(812,697)
Net cash provided (used) by operating activities	<u>193,398</u>
Cash flows from capital and related financing activities:	
Purchases and construction of capital assets	105,333
Principal payments on long-term debt	(210,431)
Interest paid on long-term debt	(114,714)
Net cash provided (used) by capital and related financing activities	<u>(219,811)</u>
Cash flows from investing activities:	
Investment income received	257
Net cash provided (used) by investing activities	<u>257</u>
Net increase (decrease) in cash and cash equivalents	(26,156)
Cash and cash equivalents, beginning of year	<u>302,484</u>
Cash and cash equivalents, end of year	<u>\$ 276,328</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (399,082)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	771,868
Accounts receivable	45,185
Inventory	(454)
Prepaid expenses	3,659
Accrued revenues	20,071
Accounts payable	(189,389)
Accrued liabilities	(65,303)
Customer deposits	6,842
Net cash provided (used) by operating activities	<u>\$ 193,398</u>
Noncash items:	
Capital contributions in the amount of \$1,180,764.	
Interest expense:	
Interest expense for the year is \$114,714.	

See the accompanying notes to the financial statements.

Martin County Water District
STATEMENT OF REVENUES, EXPENSES and CHANGES in NET POSITION
For the Year Ended December 31, 2014

	<u>2014</u>
OPERATING REVENUES:	
Water sales:	
Residential	\$ 1,581,512
Commercial	400,136
Unmetered	452
Other sales:	
Public authorities	51,121
Penalties	75,242
Other	141,095
Vendors	347
Miscellaneous	15,006
Total operating revenues	<u>2,264,912</u>
OPERATING EXPENSES:	
Salaries and wages	533,566
Employee benefits	279,131
Purchased water	334,837
Chemicals	146,849
Materials & supplies	210,528
Contractual services	137,059
Rental	11,864
Transportation	68,800
Insurance	59,449
Bad debt	52,402
Regulatory assess fees	4,214
Depreciation	771,868
Miscellaneous	53,427
Total operating expenses	<u>2,663,994</u>
OPERATIONS INCOME (LOSS)	<u>(399,082)</u>
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	257
Interest expense	(114,714)
Total nonoperating revenues (expenses)	<u>(114,456)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(513,538)
Tap fees	15,914
Capital contributions	1,164,850
Total contributions	<u>1,180,764</u>
CHANGE IN NET POSITION	667,226
NET POSITION, BEGINNING	<u>18,453,923</u>
NET POSITION, ENDING	<u>\$ 19,121,149</u>

See the accompanying notes to the financial statements.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2014

NOTE 1 – Reporting entity and significant accounting policies

(a) Description of the reporting entity

The Martin County Water District (District) was authorized by action of the Martin County Fiscal Court. The Martin County Water District Side A was formed December 1, 1962. On August 31, 1996 the Fiscal Court, with approval of the Kentucky Public Service Commission, merged Section A and B. The District is a Special Purpose Government Entity (SPGE) recognized by the Kentucky Department of Local Government. The District is governed by the Martin County Utility Board, which is comprised of Commissioners appointed by the Martin County Fiscal Court.

The District, for financial purposes, includes the transactions relevant to the operation of the Martin County Water District. The financial statements presented herein do not include other agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Martin County Water District.

(b) Basis of accounting

The District operates and reports as an enterprise fund utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) Applicable accounting standards

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for financial statements of state and local governments. The District has elected to follow all pronouncements of the GASB.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation of capital

NOTES TO THE FINANCIAL STATEMENTS (continued)

assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(d) *Investments*

Investments are reported in the accompanying statement of net position at fair value, except for certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

In accordance with the District's investment policy, the District may invest in the following:

- Certificates of Deposit
- U.S. Treasury Bills, Notes and Bonds
- Local Agency Investment Fund
- Money Market Mutual Funds

Currently, the District has no investments.

(e) *Statement of cash flows*

For the purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, restricted cash and cash equivalents, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and cash equivalents and restricted cash and cash equivalents. Currently, the District has no investments.

(f) *Restricted cash and cash equivalents*

Restricted cash and cash equivalents represent amounts held in trust at the bank and are set aside for bond sinking, operation and depreciation funds as required by the bond ordinance.

(g) *Capital assets*

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.

NOTES TO THE FINANCIAL STATEMENTS (continued)

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	10-50 years
Buildings and improvements	10-25 years
Technology equipment	5-20 years
Equipment	5-50 years

(h) *Employee leave benefits*

The District's policy on vacation shall accrue at the rate of eighty (80) hours per year for one (1) to five (5) years of full time employment, henceforth employees' may earn an additional eight (8) hours per year up to a maximum of one hundred and twenty (120) hours. Maximum accrual of each employee is one hundred and sixty (160) hours. No monetary value is given to the accrual for vacation.

The District's employees' shall accrue sick leave at the rate of eight (8) hours per month to a maximum of four hundred and eighty (480) hours. No monetary value is given to the accrual of sick leave.

(i) *Use of estimates*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(j) *Inventory*

The District maintains a detailed inventory of supplies needed to maintain the water infrastructure. Inventory is recorded at historical cost and expensed when used.

(k) *Prepaid expenses*

Payments made by the District that benefit periods beyond December 31st are classified as prepaid expenses. A current asset is recorded at the time of purchase and an expense is made per the consumption method. The prepayment of expenses is for the numerous insurances required on behalf of the District's employees' and its infrastructure.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(l) *Accrued utility revenues*

Accrued utility revenues are the accrual of water sales at December 31st that has not been billed to customers.

(m) *Accounts receivable, net*

The District accounts for the billings to customers as Customer accounts receivable less the amounts determined not to be collectable.

(n) *Capital contributions*

Capital contributions include the amounts paid by state and local governments that arise from contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

(o) *Reserves for net position*

The amount restricted in net position is the amount that has been set aside for payments of long-term debt. The restricted amount equals the restricted cash and cash equivalents as reported in the statement of net position.

(p) *Net investment in capital assets*

Net investment in capital assets is the net amount of the capital assets less the amounts payable for long-term debt financing those capital assets.

(q) *Customer deposits*

Deposits required by the District for each customer to receive services. The deposits are maintained by the District and returned when services are no longer used or other qualifying event by the District's policy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 – Budgetary data

The District's Board of Commissioners receives and approves an annual budget from management each calendar year fulfilling the requirement to prepare an annual budget as required by all SPGE's for the Kentucky Department of Local Government.

NOTE 3 – Cash and cash equivalents

Cash and cash equivalents as of December 31, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 82,395
Restricted cash and cash equivalents	<u>193,932</u>
Total cash and cash equivalents	<u>\$ 276,327</u>

Cash and cash equivalents as of December 31, 2014 consist of the following:

Cash on hand	\$ 900
Deposits with financial institutions	<u>275,427</u>
Total cash and cash equivalents	<u>\$ 275,327</u>

Custodial risk

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of a another party. As of June 30th, the District's deposits with financial institutions are non-interest bearing, and have a limited insurance coverage with the federal deposit insurance corporation up to \$250,000. As of December 31, 2014, the District deposits with financial institutions exceeded the federal depository insurance limits by \$128,877. The difference has been covered by securities pledged by the financial institution holding the deposits.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 – Capital assets

Capital asset activity for the calendar year ended December 31, 2014, was as follows:

	<u>12/31/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2014</u>
Land	\$ 214,714	\$ -	\$ -	\$ 214,714
Construction in progress	57,500		57,500	-
Structures	500,264			500,264
Collecting & Impounding Reservoirs	288,203			288,203
Lakes, rivers and intakes	1,021,403	1,132,350		2,153,753
Pumping Equip	308,887	581		309,468
Water Treatment Equipment	4,812,970			4,812,970
Distribution reservoir & standpipes	4,071,502			4,071,502
Transmission & Distribution mains	20,060,075			20,060,075
Meters & meter installation	483,949			483,949
Hydrants	2,969			2,969
Other plant & misc equip	861,964			861,964
Office Furniture & equipment	175,251			175,251
Transportation equipment	324,570			324,570
Tools	29,534			29,534
Lab Equipment	14,403			14,403
Power Operated equipment	43,193			43,193
Communication equipment	16,897			16,897
Total at historical cost	\$ <u>33,288,246</u>	\$ <u>1,132,931</u>	\$ <u>57,500</u>	\$ <u>34,363,677</u>
Less: Accumulated depreciation				
Structures	\$ 97,892	\$ 10,183	\$ -	\$ 108,075
Collecting & Impounding Reservoirs	63,959	1,555		65,514
Lakes, rivers and intakes	524,668	29,865		554,533
Pumping Equip	268,642	21,725		290,367
Water Treatment Equipment	1,291,307	92,253		1,383,560
Distribution reservoir & standpipes	854,392	81,505		935,897
Transmission & Distribution mains	7,303,779	494,624		7,798,403
Meters & meter installation	185,083	14,118		199,201
Hydrants	1,843	89		1,932
Other plant & misc equip	753,894	16,256		770,150
Office Furniture & equipment	171,917	1,402		173,319
Transportation equipment	311,355	7,314		318,669
Tools	29,167	80		29,247
Lab Equipment	14,401	-		14,401
Power Operated equipment	43,192	-		43,192
Communication equipment	15,647	899		16,546
Total accumulated depreciation	\$ <u>11,931,138</u>	\$ <u>771,868</u>	\$ <u>-</u>	\$ <u>12,703,006</u>
Capital Assets-net	\$ <u>21,357,108</u>	\$ <u>361,063</u>	\$ <u>57,500</u>	\$ <u>21,660,671</u>

Depreciation expense was \$771,868 for the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 – Long-term debt

Long-term debt activity for the calendar year ended December 31, 2014, was as follows:

Note payable

The amounts shown in the accompanying financial statements as a note payable represents the District's future obligations to make payments related to a loan obtained from the Kentucky Infrastructure Authority (KIA) to provide water to customers in the Martin County area.

The District is obligated to make payments in amounts sufficient to satisfy debt service. The original amount of the outstanding note, maturity date, interest rate, and outstanding balance at December 31, 2014 is summarized below:

<u>Note Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013 Debt Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Debt Outstanding</u>
KIA	\$ 1,329,826	2027	3%	\$ 747,955		\$ 45,632	\$ 702,322

The current amount due for the note payable as of December 31, 2014, is \$47,020. The collateral for the revenue is service revenue. Payments accrue monthly. Future note payable obligation is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 47,020	\$ 20,427	\$ 67,447
2016	48,450	18,997	67,447
2017	49,924	17,523	67,447
2018	51,443	16,004	67,447
2019	53,007	14,440	67,447
2020-2024	290,224	47,010	337,235
2025-2027	162,253	6,364	168,617
	<u>\$ 702,322</u>	<u>\$ 140,764</u>	<u>\$ 843,087</u>

Capital lease

The amount shown in the accompanying financial statements as capital lease represents the District's purchase of vehicles and equipment by obtaining funding from the Kentucky Association of Counties (KACO).

NOTES TO THE FINANCIAL STATEMENTS (continued)

The District is obligated to make payments in amounts sufficient to satisfy the debt service. The original amount of outstanding capital lease, maturity date, interest rate, and outstanding balance, at December 31, 2014 is summarized below:

<u>Capital Lease Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013 Lease Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Lease Outstanding</u>
KACO	\$200,000	2025	1.85%	\$ 146,222		\$ 10,000	\$ 136,222

The current amount due for the capital lease as of December 31, 2014, is \$10,000. The collateral for the revenue is service revenue. Payments accrue monthly. Future capital lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 10,000	\$ 5,669	\$ 15,669
2016	10,000	5,264	15,264
2017	10,000	4,834	14,834
2018	10,000	4,431	14,431
2019	10,000	4,013	14,013
2020-2024	75,000	11,725	86,725
2025	11,222	468	11,690
	<u>\$ 136,222</u>	<u>\$ 36,404</u>	<u>\$ 172,626</u>

Bonds payable

The amounts shown in the accompanying financial statements as bonds payable represents the District's initiation and improvements of its water system by obtaining funding from the United States Department of Agriculture (USDA) Division of Rural Development (RD), and additionally, the loan obtained financing from GMAC.

The District is obligated to make payments in amounts sufficient to satisfy the debt service. The original amount of outstanding bonds, maturity date, interest rate, and outstanding balance, at December 31, 2014 is summarized below:

<u>Bond Issues</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013 Debt Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Debt Outstanding</u>
GMAC	\$ 560,000	2015	5%	\$ 81,098		\$ 81,098	\$ -
RD 1	554,000	2036	4.5%	434,000		23,000	411,000
RD 5	600,000	2040	4.5%	513,700		20,700	493,000
RD 8	910,000	2047	4.375%	868,000		24,000	844,000
RD 10	\$ 241,000	2047	4.375%	229,000		6,000	223,000
				<u>\$ 2,125,798</u>	<u>\$ -</u>	<u>\$ 154,798</u>	<u>\$ 1,971,000</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

There is no current amount due for the bonds as of December 31, 2014. The collateral for the revenue is service revenue. Payments accrue monthly. Future bond obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -	\$ -	-
2016	39,500	95,134	134,634
2017	41,100	93,358	134,458
2018	43,500	91,505	135,005
2019	44,600	89,545	134,145
2020-2024	255,600	415,729	671,329
2025-2029	316,900	352,832	669,732
2030-2034	393,500	274,890	668,390
2035-2039	391,000	182,557	573,557
2040-2044	273,300	105,674	378,974
2045-2047	172,000	34,843	206,843
	\$ <u>1,971,000</u>	\$ <u>1,736,065</u>	\$ <u>3,707,065</u>

NOTE 6 – Pension plan

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employees' retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular full-time employees of the District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 19.55%. The District contributed \$97,386 of the employee's compensation during the calendar year ended December 31, 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended December 31, 2014, 2013, and 2012 were \$124,044, \$122,085 and \$104,718 respectively.

NOTE 7 – Recently issued accounting standards

Government Accounting Standards Board (GASB) No. 68, Accounting and Financial Reporting for Pensions, will require that unfunded portions of future benefit obligations shall be recorded as a liability of governments. This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. The District is on a calendar year but implementation shall take place in 2015 to more clearly align with the County Retirement System report ending June 30, 2014, the measurement date. The implementation will have a material effect on the financial statements.

NOTE 8 – Risk management

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/ destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance coverage.

NOTE 9 – Subsequent events

The District has evaluated subsequent events through September 30, 2016, the date of the financial statements were available to be issued.

White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road

Richmond, Kentucky 40475

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners of the Martin County Water District
Inez, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the enterprise fund of Martin County Water District (District), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
September 30, 2016

MARTIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS
Year Ended December 31, 2014

SECTION I – SUMMARY OF AUDITORS’ RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None reported N/A
Was any material noncompliance reported (GAGAS)?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings.

MARTIN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2014

There were no findings from the prior year.

White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road
Richmond, Kentucky 40475

September 30, 2016

To the Board of Commissioners of the Martin County Water District
Inez, Kentucky

We have audited the financial statements of the enterprise fund of the Martin County Water District for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 19, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Martin County Water District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the government wide financial statements was the useful lives and residual values of capital assets:

Management's estimate of the useful lives and residual values of capital assets is based on historical trends. We evaluated the key factors and assumptions used to develop the useful lives and residual values of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Commissioners and the Martin County Fiscal Court and management of the Martin County Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
September 30, 2016